JLARC Summary
December 27, 2012

On December 12, 2011 the Joint Legislative Audit and Review Commission (JLARC) published a Commission Briefing on their Review of Retirement Benefits for State and Local Governments. The comments that follow are on the Commission Briefing and not on the full report (which has not been distributed at the time of this writing). This handout is meant to summarize the report highlights. It is not intended to be exhaustive.

BACKGROUND

Page 7 The average state employee retires with 23.3 years of service. VRS currently replaces 39.6% of Average Final Compensation (*not* final salary) for an employee with 23.3 years of service who retires with no reductions (such as early retirement or Joint & Survivor factors).

DEFINED BENEFIT PLANS HAVE KEPT STATE MARGINALLY COMPETITIVE

This section makes a point that was frequently mentioned in the Benefit Advisory Group discussions (most often by Lonnie Phillips). That point is: comparison of benefit values should not be done in a vacuum, but instead while comparing total compensation package.

VRS BENEFITS PROVIDE ADEQUATE INCOME WHEN PAIRED WITH OTHER RESOURCES

Page 25 The assumption of 30 years of service is above the state average. The 51% is a percentage of average final salary – not of final salary.

Page 26 This uses 23.3 years, which is probably better starting point. It is appropriate to consider Social Security when evaluating a benefit package. However, under its current form it is not sustainable, so we have to ask, is it appropriate to use these charts to project values for the long term?

ADDITIONAL RESOURCES NEEDED TO FUND BENEFITS' COSTS

Page 32 The first two columns of rates are percentages of salary. The last column is the relative change from on column to the other (and *not* a percentage of salary).

Page 34 The Minimal Acceptable Funded Ratio is not a universally accepted level or amount.

Page 36 The state has regularly underfunded its pension plans.

Page 37 It is not clear how an asset shortfall (inadequate contributions) leads to $34 billion in liabilities. Perhaps this means unfunded liabilities.

Page 38 This recommends the code of Virginia establish a minimum acceptable funding ratio. However, it does not specify how to attain that level and then how to retain/maintain it.

Page 39 This recommends an actuarial study of funding implications every time the state budget underfunds pensions.

POSSIBLE MODIFICATIONS TO THE DEFINED BENEFIT PLANS

Page 41 This recaps the changes made in 2010 (the creation of VRS 2).

Pages 43 – 49 conclude the proposal's impact on recruitment, retention, and retirement. It is not clear how these evaluations were made.

Page 43 Option # 1 would increase the AFC period from 36 to 60 months. It is not clear, but I suspect this applies to all VRS participants, including Plan 1. I believe it applies to benefits earned following the effective date of the act.

Page 44 Option #2 would reduce the benefit multiplier from 1.7% to 1.6% for new hires in non-hazardous duty plans.

Page 45 Option # 3 would decrease the Cost of Living Adjustment. There may be limitations and grandfathering may be required.

Page 46 Option #4 would delay the COLA for employees retiring with reduced benefits.

Page 47 Option #5 would increase the retirement age in SPORS (State Police) and VaLORS (Law Enforcement Officers) and local plans.
Page 48 Option #6 has two parts. First, (6 a) it would increase the employee contribution from 5% to 7% in non-hazardous duty plans. Second, (6 b) it would increase the employee contribution from 5% to 9% in SPORS and VaLORS). It is not clear if the increase from 5% to 7% applies to local governments.

Page 49 Option #7 would fix the employer rate at a constant rate. Some plans do this by shortening or lengthening the amortization period until the contribution rate is achieved and the actuarially recommended rate is then paid in full. It is possible that the unfunded liability increases so much that this method fails (the amortization period cannot be increased long enough to reach the arbitrarily set rate)

Page 50 JLARC recommended options 1 – 4 and did not recommend options 5, 6a, 6b, and 7.

POSSIBLE ALTERNATIVES TO THE DEFINED BENEFIT PLANS

Page 56 GASB (the group setting accounting standards) would accelerate the paying off of the unfunded liability of a closed plan. It would increase the current contributions; it would change the timing of the costs, not the present value of the system's unpaid bills.

Pages 57 – 62 The survey results were consistent with the discussions of the Benefits Advisory Group.

Pages 63 – 83 Two alternatives are discussed, 1) a defined contribution plan and 2) a hybrid plan. The merits of portability are mentioned. If a defined contribution plan is created a disability benefit is called for but not specified. This would add to the costs (or reduce the plan's savings). Adequacy is achieved for those working 37 years and contributing 8 ½% of salary. Those contributing at the minimum allowable amount would not have adequate income. Employee education (investment & planning) would have to be increased.